



VILLAGE OF SOUTH ROCKWOOD
Monroe County, Michigan

ANNUAL FINANCIAL REPORT

June 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF SOUTH ROCKWOOD	County MONROE
Audit Date 6/30/05	Opinion Date 11/21/05	Date Accountant Report Submitted to State: 12/12/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON, CPAS, PLLC			
Street Address ONE SOUTH MONROE STREET		City MONROE	State MI
		ZIP 48161	
Accountant Signature <i>Cooley Hehl Wohlgamuth & Carlton</i>		Date 12/12/05	

VILLAGE OF SOUTH ROCKWOOD

Table of Contents *June 30, 2005*

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11-12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet of Governmental Funds to the	
Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures and Changes	
in Fund Balances of Governmental Funds to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses and Changes in Fund Net Assets	18
Statement of Cash Flows	19-20
Notes to Financial Statements	21-40
Required Supplemental Information:	
General Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget and Actual	41-42
Local Street Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget and Actual	43
Other Supplemental Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	44
Combining Statement of Revenues, Expenditures, and Changes in Fund	
Balances	45

VILLAGE OF SOUTH ROCKWOOD

Table of Contents (Continued)
June 30, 2005

Other Supplemental Information (Continued):

Major Street Fund:

Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget and Actual	46

Riverside Cemetery Fund:

Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget and Actual	47

Capital Projects Fund:

Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget and Actual	48



**COOLEY HEHL
WOHLGAMUTH & CARLTON**
P. L. L. C. Certified Public Accountants

James R. Cooley, CPA
David K. Hehl, CPA
Robert W. Wohlgamuth, CPA
Peter H. Carlton, CPA
Matthew D. Hehl, CPA
Deborah A. Sabo, CPA

One South Monroe Street • Monroe, Michigan 48161-2281
Telephone: (734) 241-7200 • Fax: (734) 241-2637
www.chwccpa.com

Members:
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants
Division for CPA Firms American Institute of
Certified Public Accountants

Independent Auditor's Report

Village Council
Village of South Rockwood
Monroe County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of South Rockwood, Monroe County, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of South Rockwood, Monroe County, Michigan management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of South Rockwood, Monroe County, Michigan as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 41 through 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Village Council
Village of South Rockwood

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of South Rockwood, Monroe County, Michigan basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cooley Held Wohlgenuth & Cauter

November 21, 2005

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis Year Ended June 30, 2005

This section of the Village of South Rockwood's annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the Village's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Village's revenues and expenditures by program for the General Fund, Special Revenue Funds, Capital Projects Fund, Internal Service Fund, and Proprietary Funds.

The Governmental Accounting Standards Board (GASB) adopted this reporting model in *Statement No.34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD &A.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Village of South Rockwood financially as a whole. The ***Government-Wide Financial Statements***, which include the Statement of Net Assets and the Statement of Activities, provide information about the activities of the Village as a whole and presents both a short-term and a long-term view of those finances. The ***Fund Financial Statements*** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The ***Fund Financial Statements*** report the Village's operations in more detail than the ***Government-Wide Financial Statements*** by providing information about the Village's most significant funds - the General Fund, the Local Street Fund, Sewer and Water Funds, and the Equipment Fund. The following summary illustrates how the various parts of this annual report are arranged:

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

*Budgetary Information for Major Funds
(Required Supplemental Information)*

Other Supplemental Information

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis *Year Ended June 30, 2005*

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities (pages 10-12), which appear first in the Village's financial statements, report information on the Village as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two government-wide statements report the Village's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Village's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the Village's operating results. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the Village.

The government-wide financial statements of the Village are divided into two categories:

Governmental activities – Most of the Village's basic services are included here, such as the police, inspection, planning and zoning, public works, sanitation and recycling, recreation, streets, cemetery and general administration. Property taxes, state-shared revenue and charges for services provide most of the funding.

Business-type activities – The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's sewer and water systems are treated as business-type activities.

Fund Financial Statements

The Village's Fund Financial Statements (pages 13-20) provide detailed information about the most significant or "major" funds - not the Village as a whole. Some funds are required to be established by State law and by bond covenants. However, the Village establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The Village's two types of funds, governmental, and proprietary, use different accounting approaches as described below:

Governmental funds - Many of the Village's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Village and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 14 and 16.

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis *Year Ended June 30, 2005*

Fund Financial Statements (Concluded)

Proprietary fund – Proprietary Funds are used to account for services provided by the Village where the Village charges customers (whether external or internal) for the services it provides. These funds use accrual accounting; the same method used by private sector businesses. The Village maintains two different types of proprietary funds: enterprise and internal service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sewer and water services. An internal service fund is used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its equipment rental activity. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the Village as a whole. Table 1 provides a summary of the Village's net assets as of June 30, 2005 and 2004:

Table 1:

Comparative Statement of Net Assets June 30,

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$952,042	\$801,005	\$345,230	\$344,445	\$1,297,272	\$1,145,450
Capital assets, net	409,402	398,367	5,012,258	4,620,666	5,421,660	5,019,033
Total Assets	1,361,444	1,199,372	5,357,488	4,965,111	6,718,932	6,164,483
Current and other liabilities	34,622	23,852	114,681	33,970	149,303	57,822
Long-term liabilities	42,355	74,657	1,965,988	1,709,467	2,008,343	1,784,124
Total Liabilities	76,977	98,509	2,080,669	1,743,437	2,157,646	1,841,946
Net Assets						
Invested in capital						
assets, net of related debt	393,547	358,485	2,948,236	2,911,199	3,341,783	3,269,684
Restricted	524,352	575,837	0	0	524,352	575,837
Unrestricted	366,568	166,541	328,583	310,475	695,151	477,016
Total Net Assets	\$1,284,467	\$1,100,863	\$3,276,819	\$3,221,674	\$4,561,286	\$4,322,537

The Village's combined net assets of \$4.6 million increased 5%, approximately \$239,000 from 2004. Business-type activities (the Water and Sewer Fund) account for 72% of the Village's net asset balance. Unrestricted net assets totaled \$695,151.

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis *Year Ended June 30, 2005*

Government-Wide Financial Analysis – Continued

Table 2:

Comparative Statement of Changes in Net Assets June 30,

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for services	\$275,845	\$278,253	\$334,633	\$247,582	\$610,478	\$525,835
Federal, state and local grants	154,466	116,201	0	0	154,466	116,201
	430,311	394,454	334,633	247,582	764,944	642,036
General revenues						
Property taxes	500,140	401,110	0	0	500,140	401,110
State grants	112,481	114,453	0	0	112,481	114,453
Other general revenues and transfers out	(5,459)	(109,688)	140,637	159,671	135,178	49,983
	607,162	405,875	140,637	159,671	747,799	565,546
Total Revenues	1,037,473	800,329	475,270	407,253	1,512,743	1,207,582
Functions/Program Expenses						
Legislative	7,369	8,652	0	0	7,369	8,652
General government	186,733	193,662	0	0	186,733	193,662
Public safety	188,062	234,874	0	0	188,062	234,874
Public works	354,334	316,543	0	0	354,334	316,543
Recreation and cultural	94,221	69,459	0	0	94,221	69,459
Other	23,150	15,194	0	0	23,150	15,194
Sewer	0	0	235,916	205,759	235,916	205,759
Water	0	0	184,209	192,791	184,209	192,791
Total Expenses	853,869	838,384	420,125	398,550	1,273,994	1,236,934
Increase (Decrease) in Net Assets	\$183,604	(\$38,055)	\$55,145	\$8,703	\$238,749	(\$29,352)

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis Year Ended June 30, 2005

Government-Wide Financial Analysis - Concluded

The Village's governmental activities had an increase of \$183,604 in net assets. Total revenue increased 30% approximately \$237,000, while total expenses increased slightly at 2%, approximately \$15,000. As state funding continued to decrease, the Village raised taxes by 2 mills accounting for \$90,000 of the revenue increase. The Village also experienced a few unique revenue sources. Abandoned property of \$74,925 was recovered from Monroe County's Omni Program, and the Village received \$15,921 from the State Department of Natural Resources to purchase 2 acres of land adjacent to Labo Park. The Village controlled program expenses by continuing the Village Hall's reduced hours, and closely monitoring spending in all areas.

Fund Financial Analysis

As noted earlier, the Village uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the Village of South Rockwood is being held accountable for the resources taxpayers and others provide to it and may give more insight into the Village's overall financial health.

As the Village completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$844,985 which is an increase of \$162,909 from last year. The changes by major and nonmajor funds are as follows:

	General Fund	Local Street Funds	Nonmajor Funds	Total
Fund balances -				
Beginning of Year	\$ 85,596	\$215,792	\$380,688	\$682,076
Increase (decrease)	214,120	(80,547)	29,336	162,909
Fund balances -				
End of year	<u>\$299,716</u>	<u>\$135,245</u>	<u>\$410,024</u>	<u>\$844,985</u>

As indicated below, the General Fund's revenue increased 25% and expenses decreased 8%. General Fund revenue increases include the previously mentioned property taxes, abandoned property, and park grant. Public safety was the main factor in the decrease in expenses from 2004, decreasing \$57,266.

	June 30, 2005	June 30, 2004	Percent Change
Revenues			
Property taxes	\$500,140	\$401,110	24.7 %
Licenses and permits	47,543	39,650	19.9 %
Federal grants	1,693	-	N/A
State grants	135,366	121,427	11.5 %
Local grant	22,383	-	N/A
Charges for services	46,701	44,799	4.2 %
Fines and forfeits	14,255	13,294	7.2 %
Interest	3,286	1,214	170.7 %
Other	164,093	93,893	74.8 %
Proceeds from Capital Lease	-	34,829	N/A
Total Revenues	<u>\$935,460</u>	<u>\$750,216</u>	24.7 %

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis *Year Ended June 30, 2005*

Fund Financial Analysis – Concluded

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Percent Change</u>
Expenditures			
Legislative	\$ 7,369	\$ 8,652	(14.8)%
General government	151,224	144,959	4.3 %
Public safety	213,569	270,835	(21.1)%
Public works	128,356	148,103	(13.3)%
Recreation and cultural	90,121	62,873	43.3 %
Other	23,150	15,194	52.4 %
Operating transfers out	107,551	132,497	(18.8)%
Total Expenditures	<u>\$721,340</u>	<u>\$783,113</u>	(7.9)%

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Village Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the Village revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the Village's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Revenues – The original budget was amended from \$796,770 to \$869,000. The increase included the abandoned property revenue and the park grant. Several factors impact the planning of the General Fund budget. The Village, which relies heavily on property taxes and state shared revenue to fund General Fund expenditures levied two additional mills this year. These two revenues account for 70% of the budgeted revenue.

Expenditures – The original budget was amended from \$701,289 to \$773,519. General government's budget was increased \$19,315, public safety \$13,070, and recreation and culture \$29,075. The Village budgeted a fund balance decrease of (\$12,070). The actual result was a fund balance increase of \$214,120.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, the Village had \$6,743,315 invested in a broad range of capital assets, including land, land improvements, building and improvements, machinery and equipment, vehicles, roads, and sewer and water lines. This amount represents an increase of \$536,592 from last year. This year's additions included electrical improvements, police radios, portable defibrillators, computers, lawn equipment, road improvements, and water and sewer improvements. Depreciation for this year totaled \$133,967. Detailed information regarding capital assets is included in Note 7 to the Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis Year Ended June 30, 2005

Capital Assets and Debt Administration (Concluded)

Debt

At June 30, 2005, the Village had Long Term Debt totaling \$2,119,168. During the year, the Village entered into an agreement with the City of Woodhaven to purchase additional sewer capacity for \$237,367, and added the 2004 SRF Bonds for \$203,762 totaling new debt additions of \$441,129.

Development of the 2005-06 Fiscal Year Budget

Our elected officials considered many factors when setting the Village's 2005-06 fiscal year budget. In developing the 2005-06 General Fund budget, the Village reduced revenues by approximately \$62,000 from the 2004-05 year mainly due to reducing revenue for recovery of abandoned property of \$79,000, the Labo Park grant of \$16,000, and non-business permits by \$8,000, offset by increases in revenue for property taxes of \$25,000. Expenditures for 2005-06 were increased by approximately \$70,000 over the 2004-05 year mainly due to increases in salaries, health insurance, equipment purchases, ordinance codification costs, and a \$5,000 increase in the transfer to the Water Fund.

Contacting the Village of South Rockwood

This financial report is designed to provide the Village's citizens, taxpayers, customers, investors and creditors with a general overview of the Village's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the Village of South Rockwood, P.O. Box 85, South Rockwood, MI 48179.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF SOUTH ROCKWOOD

Statement of Net Assets *June 30, 2005*

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$852,819	\$250,122	\$1,102,941
Accounts/taxes receivable	13,726	123,496	137,222
Due from other governmental units	41,449	0	41,449
Internal balances	35,428	(35,428)	0
Prepaid expenses	8,620	0	8,620
Depreciable capital assets, net	409,402	5,012,258	5,421,660
Connection fees receivable - noncurrent	0	7,040	7,040
Total Assets	1,361,444	5,357,488	6,718,932
Liabilities			
Accounts payable	5,450	5,855	11,305
Accrued and other liabilities	16,381	10,792	27,173
Long-term liabilities:			0
Due within one year	12,791	95,034	107,825
Due in more than one year	42,355	1,968,988	2,011,343
Total Liabilities	76,977	2,080,669	2,157,646
Net Assets			
Invested in capital assets, net of related debt	393,547	2,948,236	3,341,783
Restricted for drug enforcement / education	4,149	0	4,149
Restricted for highways and streets	317,690	0	317,690
Restricted for cemetery	202,513	0	202,513
Unrestricted	366,568	328,583	695,151
Total Net Assets	\$1,284,467	\$3,276,819	\$4,561,286

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Statement of Activities *Year Ended June 30, 2005*

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government -				
Governmental activities:				
Legislative	\$7,369	\$0	\$0	\$0
General government	186,733	83,600	0	0
Public safety	188,062	61,798	2,928	22,383
Public works	354,334	106,247	113,214	0
Recreation and cultural	94,221	24,200	0	15,941
Other	23,150	0	0	0
Total Governmental Activities	853,869	275,845	116,142	38,324
Business-type activities:				
Sewer	235,916	150,832	0	0
Water	184,209	183,801	0	0
Total business type activities	420,125	334,633	0	0
Total primary government	<u>\$1,273,994</u>	<u>\$610,478</u>	<u>\$116,142</u>	<u>\$38,324</u>

General Revenues:

Property taxes
 State grants
 Debt service and connection charges
 Interest and investment earnings
 Abandoned property recovery
 Other
 Transfers

Total general revenues & transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets Primary Government		
Governmental Activities	Business-type Activities	Total
(\$7,369)	\$0	(\$7,369)
(103,133)	0	(103,133)
(100,953)	0	(100,953)
(134,873)	0	(134,873)
(54,080)	0	(54,080)
(23,150)	0	(23,150)
(423,558)	0	(423,558)
0	(85,084)	(85,084)
0	(408)	(408)
0	(85,492)	(85,492)
(423,558)	(85,492)	(509,050)
500,140	0	500,140
112,481	0	112,481
0	35,269	35,269
14,849	2,817	17,666
74,925	0	74,925
7,318	0	7,318
(102,551)	102,551	0
607,162	140,637	747,799
183,604	55,145	238,749
1,100,863	3,221,674	4,322,537
<u>\$1,284,467</u>	<u>\$3,276,819</u>	<u>\$4,561,286</u>

FUND FINANCIAL STATEMENTS

VILLAGE OF SOUTH ROCKWOOD

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Local Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$227,079	\$138,239	\$418,068	\$783,386
Accounts/taxes receivable	13,726	0	0	13,726
Due from other governmental units	41,449	0	0	41,449
Due from other funds	38,682	0	0	38,682
Prepaid expense	8,620	0	0	8,620
Total Assets	\$329,556	\$138,239	\$418,068	\$885,863
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$5,415	\$0	\$35	5,450
Due to other funds	8,044	2,994	8,009	19,047
Escrow accounts	16,381	0	0	16,381
Total Liabilities	29,840	2,994	8,044	40,878
Fund Balances				
Reserved for prepaid expenses	8,620	0	0	8,620
Reserved for drug enforcement / education	4,149	0	0	4,149
Unreserved:				
Designated for future projects	143,117	0	0	143,117
Undesignated, reported in:				
General Fund	143,830	0	0	143,830
Special Revenue Funds	0	135,245	384,958	520,203
Capital Projects Fund	0	0	25,066	25,066
Total Fund Balances	299,716	135,245	410,024	844,985
Total Liabilities and Fund Balances	\$329,556	\$138,239	\$418,068	\$885,863

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

*Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Year Ended June 30, 2005*

Total Fund Balances - Governmental Funds		\$844,985
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$496,583	
Accumulated depreciation is	<u>(201,283)</u>	295,300
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Obligations under capital lease	(14,950)	
Compensated absences	<u>(39,291)</u>	(54,241)
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are reported with the governmental activities.		<u>198,423</u>
Total Net Assets - Governmental Activities		<u>\$1,284,467</u>

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Local Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$500,140	\$0	\$0	\$500,140
Licenses and permits	47,543	0	0	47,543
Federal grants	1,693	0	0	1,693
State grants	135,366	32,159	75,346	242,871
Local grants	22,383	0	0	22,383
Charges for services	46,701	0	25,800	72,501
Fines and forfeits	14,255	0	0	14,255
Interest/investment income	3,286	1,934	8,532	13,752
Other revenue	164,093	0	150	164,243
Total Revenues	935,460	34,093	109,828	1,079,381
Expenditures				
Current Operating:				
Legislative	7,369	0	0	7,369
General government	151,224	0	27,730	178,954
Public safety	213,569	0	0	213,569
Public works	128,356	129,640	42,762	300,758
Recreation and cultural	90,121	0	0	90,121
Other	23,150	0	0	23,150
Total Expenditures	613,789	129,640	70,492	813,921
Excess (Deficiency) of Revenues Over Expenditures	321,671	(95,547)	39,336	265,460
Other Financing Sources (Uses)				
Operating transfers in	0	15,000	0	15,000
Operating transfers out	(107,551)	0	(10,000)	(117,551)
Total Other Financing Sources (Uses)	(107,551)	15,000	(10,000)	(102,551)
Net Change in Fund Balances	214,120	(80,547)	29,336	162,909
Fund Balances - Beginning of year	85,596	215,792	380,688	682,076
Fund Balances - End of year	<u>\$299,716</u>	<u>\$135,245</u>	<u>\$410,024</u>	<u>\$844,985</u>

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2005*

Total Net Change in Fund Balances - Governmental Funds		\$162,909
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	(\$29,734)	
Capital outlay	<u>63,583</u>	33,849
Increases in the liability for compensated absences are reported as an expenditure in the statement of activities, but not in the government funds.		
		(4,516)
Repayments of capital lease principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt).		
		11,321
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the Internal Service Funds is reported with Governmental activities.		
		<u>(19,959)</u>
Change in Net Assets of Governmental Activities		<u><u>\$183,604</u></u>

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Proprietary Funds Statement of Net Assets June 30, 2005

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Assets				
Current Assets:				
Cash	\$94,152	\$155,970	\$250,122	\$69,433
Receivables	62,261	61,235	123,496	0
Due from other funds	216,102	0	216,102	16,510
Total Current Assets	372,515	217,205	589,720	85,943
Capital Assets:	3,169,100	2,716,579	5,885,679	361,053
Less: Allowance for depreciation	(584,111)	(289,310)	(873,421)	(246,951)
Total Capital Assets	2,584,989	2,427,269	5,012,258	114,102
Other Assets:				
Connection fees receivable - noncurrent	7,040	0	7,040	0
Total Assets	2,964,544	2,644,474	5,609,018	200,045
Liabilities				
Current Liabilities:				
Accounts payable	0	5,855	5,855	0
Accrued interest payable	1,980	8,812	10,792	0
Due to other funds	597	250,933	251,530	717
Current portion of long-term debt	30,034	65,000	95,034	905
Total Current Liabilities	32,611	330,600	363,211	1,622
Noncurrent Liabilities:				
Long-term debt- net of current portion	623,988	1,345,000	1,968,988	0
Total Liabilities	656,599	1,675,600	2,332,199	1,622
Net Assets				
Invested in capital assets, net of related debt	1,930,967	1,017,269	2,948,236	113,197
Unrestricted	376,978	(48,395)	328,583	85,226
Total Net Assets	\$2,307,945	\$968,874	\$3,276,819	\$198,423

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Proprietary Funds *Statement of Revenues, Expenses, and Changes in Fund Net Assets* *Year Ended June 30, 2005*

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Operating Revenues				
Charges for services	\$146,694	\$170,373	\$317,067	\$59,546
Penalties	3,788	3,943	7,731	0
Tapping fees	0	9,200	9,200	0
Other revenue	350	285	635	0
Total Operating Revenues	150,832	183,801	334,633	59,546
Operating Expenses				
Water purchase	0	53,242	53,242	0
Transmission and distribution	1,150	60,261	61,411	74,019
Maintenance of lines	101,227	0	101,227	0
Processing of sewage	84,645	0	84,645	0
Office and Administration	39,412	34,061	73,473	6,000
Total Operating Expenses	226,434	147,564	373,998	80,019
Operating Income (Loss)	(75,602)	36,237	(39,365)	(20,473)
Non-operating Revenues (Expenses)				
Debt service charge	15,463	2,406	17,869	0
Connection fees	17,400	0	17,400	0
Interest income	870	1,947	2,817	1,097
Interest expense	(9,482)	(36,645)	(46,127)	(583)
Total Non-operating Revenues (Expenses)	24,251	(32,292)	(8,041)	514
Income (Loss) before Transfers	(51,351)	3,945	(47,406)	(19,959)
Transfers in	0	102,551	102,551	0
Change in Net Assets	(51,351)	106,496	55,145	(19,959)
Net Assets - Beginning of year	2,359,296	862,378	3,221,674	218,382
Net Assets - End of year	<u>\$2,307,945</u>	<u>\$968,874</u>	<u>\$3,276,819</u>	<u>\$198,423</u>

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Cash Flows from Operating Activities:				
Receipts from customers	\$138,117	\$146,613	\$284,730	\$58,508
Payments to suppliers	(156,120)	(86,194)	(242,314)	(22,871)
Payments to employees	(10,527)	(23,147)	(33,674)	(19,832)
Payments to Internal Service funds and Administration Fees	(24,000)	(18,000)	(42,000)	(6,000)
Net cash provided by operating activities	(52,530)	19,272	(33,258)	9,805
Cash Flows from Noncapital Financing Activities:				
Transfers in	0	102,551	102,551	0
Advance to the Water Fund	(78,227)	0	(78,227)	0
Advance from the other funds	0	101,408	101,408	0
Net cash flows from noncapital financing activities	(78,227)	203,959	125,732	0
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	(441,129)	(24,095)	(465,224)	(7,785)
Proceeds from bonds payable	441,129	0	441,129	0
Principal payments on contracts payable	(26,574)	(60,000)	(86,574)	(12,706)
Interest paid	(8,805)	(37,021)	(45,826)	(583)
Debt service and connection charges	27,913	2,406	30,319	0
Net Cash Used for Capital and Related Financing Activities	(7,466)	(118,710)	(126,176)	(21,074)
Cash Flows from Investing Activities:				
Interest income	870	1,947	2,817	1,097
Net Increase (Decrease) in Cash and Cash Equivalents	(137,353)	106,468	(30,885)	(10,172)
Cash and Cash Equivalents - Beginning of Year	231,505	49,502	281,007	79,605
Cash and Cash Equivalents - End of Year	<u>\$94,152</u>	<u>\$155,970</u>	<u>\$250,122</u>	<u>\$69,433</u>

See Notes to Financial Statements.

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss)	(\$75,602)	\$36,237	(\$39,365)	(\$20,473)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	49,345	24,289	73,634	30,599
Changes in operating assets and liabilities:				
Receivables	(12,715)	(37,188)	(49,903)	0
Due from other funds	0	0	0	(321)
Accounts payable	(13,558)	(4,066)	(17,624)	0
Net Cash Provided by Operating Activities	<u>(\$52,530)</u>	<u>\$19,272</u>	<u>(\$33,258)</u>	<u>\$9,805</u>

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2005*

Note 1 Description of the Village and Reporting Entity

The Village operates under a locally elected six member Council form of government. The Village provides the following services: public safety (police), highways and streets, sanitation, recreation and culture, public improvements, planning and zoning, cemetery, water and sewer, and general administrative services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the Village consists of all funds, departments, boards, and agencies that are not legally separate from the Village.

Component units are legally separate organizations for which the Village is financially accountable. Component units may also include organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt, or the levying of taxes. The Village has no component units.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Village of South Rockwood have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement 20 the Village has elected not to apply the FASB statements and interpretation issued after November 30, 1989, to its financial statements. Following are the more significant of the Village's accounting policies.

Basis of Presentation

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. The Village's government-wide activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely, to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenue include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes taxes, intergovernmental payments, and other items not properly included among program revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major governmental funds and the individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF SOUTH ROCKWOOD

*Notes to Financial Statements
Year Ended June 30, 2005*

Note 2 Summary of Significant Accounting Policies (Continued)
Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Governmental fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

On the governmental funds statements, property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. The General Fund accounts for all financial resources of the Village, except those required to be accounted for in another fund.

The Local Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all local streets.

The Village reports the following major proprietary funds:

The Water Supply System Fund accounts for the operation and maintenance of the water supply system, capital additions and retirement of debt. Financing is provided by user charges and contributions by other funds.

The Sewage System Fund accounts for the operation and maintenance of the sewage disposal system, capital additions and retirement of debt. Financing is provided by user charges.

Additionally, the Village reports the following Internal Service fund type:

The Equipment Fund accounts for the financing and maintenance of machinery and equipment used by other Village departments. Such costs are billed to the other departments at rates established by the State of Michigan.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Concluded)

The Village reports the following nonmajor governmental funds:

The Major Street Fund, Riverside Cemetery Fund, and Capital Projects Fund are the Village's nonmajor governmental funds. These funds are used to account for specific revenue sources that are restricted for a particular purpose.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Tax Receivable - Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. Taxes are considered delinquent September 14 of the following year.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, water or sewer lines) are reported in the applicable governmental or business-type activities columns of the government wide financial statements. Capital assets are defined by the Village as assets with an individual cost of more than \$1,000 and estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	15 years
Buildings and buildings improvements	15-60 years
Machinery and equipment	3-15 years
Vehicles	5-10 years
Water and sewer lines	50-99 years
Roads	20 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Accrued Liabilities and Long-Term Obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debt, notes and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets.

In general, payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Payments of long-term loans that are paid from governmental funds, are recognized as an expenditure on the governmental fund financial statements when due.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Interfund Transactions - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Concluded)

Basis of Presentation (Concluded)

C. Assets, Liabilities, and Net Assets or Equity (Concluded)

Fund Balance Reserves and Designations - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences - Village employees are granted vacation and personal days under formulas and conditions in the employees' contract. The vacation and personal pay is accrued in the government wide financial statements. In the fund financial statements, these amounts are reported when paid.

- D. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.
- E. Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Village and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.
- F. Budgetary Policies - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue Funds are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Village Council at the function level. Any budgetary modifications may only be made by resolution of the Village Council.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

1. Prior to June 30, the fiscal officer submits to the Village Council a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. During the year the budget is monitored, and amendments to the budget deemed necessary are approved by the Village Council.
5. Budgets are adopted on basis consistent with accounting principles generally accepted in the United States of America.
6. Lapsing of Appropriations - At the close of each year all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriations.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 3 Stewardship, Accountability and Compliance

The Village shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds.

In the required supplemental information, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

Note 4 Deposits and Investments

Statutes authorize the Village to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the Village may not be deposited in financial institutions located in states other than Michigan.

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2005, the Village of South Rockwood had invested in such a fund with a local bank. The Village is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The Council has adopted an investment policy authorizing certain types of investments and authorized one depository: Monroe Bank and Trust.

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. As of June 30, 2005, \$916,775 of the Village's bank balance of \$1,016,775 was exposed to custodial credit risk deposits because it was uninsured and uncollateralized. The Village does not have a deposit policy for custodial credit risk. The Village believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk-investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village has not adopted a policy that indicates how the Village will minimize custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Village's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$81,319	Counterparty
Corporate bonds	19,143	Counterparty

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements
Year Ended June 30, 2005

Note 4

Deposits and Investments (Concluded)

Interest rate risk. The Village's does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Corporate bonds	\$19,143	3.87 years
U.S. governmental and agency securities	64,159	8.66 years
Mutual funds - U.S. securities	17,160	1 day

Credit risk. State law limits investments in commercial paper to the top two ratings issued by nationally statistical rating organizations. The Village has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$81,319	AAA	Standard & Poor's
Corporate bonds	19,143	BB to BB+	Standard & Poor's

Concentration of credit risk. The Village does not have a formal investment policy that limits the amount the Village may invest in any one issuer as a means of diversifying it's investment portfolio. The Village has more than 5% of its investments in the following:

Corporate bonds - GMAC	9.03%
- Ford Motor Credit	10.03%
U.S. government agencies	80.94%

VILLAGE OF SOUTH ROCKWOOD

*Notes to Financial Statements
Year Ended June 30, 2005*

Note 5 Interfund Receivables and Payables

Balances at June 30, 2005 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Street Fund:		
General Fund	\$ -	\$1,014
Equipment Fund	-	3,801
Local Street Fund:		
General Fund	-	1,339
Equipment Fund	-	1,655
Cemetery Fund:		
General Fund	-	271
Equipment Fund	-	2,923
Sewer Fund:		
General Fund	363	506
Water Fund	215,739	-
Equipment Fund	-	91
Water Fund:		
General Fund	-	34,835
Sewer Fund	-	215,739
Equipment Fund	-	359
Equipment Fund:		
General	7,681	717
Major Street Fund	3,801	-
Local Street Fund	1,655	-
Cemetery	2,923	-
Water Fund	359	-
Sewer Fund	91	-
General Fund:		
Major Street Fund	1,014	-
Local Street Fund	1,339	-
Cemetery	271	-
Sewer Fund	506	363
Water Fund	34,835	-
Equipment Fund	717	7,681
	<u>\$271,294</u>	<u>\$271,294</u>

Note 6 Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2005, consisted of the following:

	<u>Transfers Out</u>		
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Total</u>
<u>Transfers In:</u>			
Local Street Fund	\$ 5,000	\$10,000	\$ 15,000
Water Fund	<u>102,551</u>	<u>-</u>	<u>102,551</u>
	<u>\$107,551</u>	<u>\$10,000</u>	<u>\$117,551</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2005*

Note 6 Interfund Transfers (Concluded)

The transfers from the General Fund and Major Street Fund to the Local Street Fund were for local street maintenance. The General Fund budgeted and transferred three mills of property taxes to the Water Fund for operation expenses.

Note 7 Fixed Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities:				
Assets not being depreciated:				
Land	\$39,000	\$0	\$0	\$39,000
Capital assets being depreciated:				
Building and building improvements	120,416	4,000	0	124,416
Land improvements	111,958	0	0	111,958
Police vehicles	64,654	0	0	64,654
Police equipment	22,916	27,826	0	50,742
Office equipment	18,015	6,180	0	24,195
Roads	56,041	25,577	0	81,618
Equipment Fund	353,268	7,785	0	361,053
 Total capital assets	 786,268	 71,368	 0	 857,636
 Less accumulated depreciation for:				
Building and building improvements	(67,533)	(3,794)	0	(71,327)
Land improvements	(48,076)	(7,464)	0	(55,540)
Police vehicles	(22,539)	(12,931)	0	(35,470)
Police equipment	(19,602)	(907)	0	(20,509)
Office equipment	(13,799)	(1,578)	0	(15,377)
Roads	0	(3,060)	0	(3,060)
Equipment Fund	(216,352)	(30,599)	0	(246,951)
 Total accumulated depreciation	 (387,901)	 (60,333)	 0	 (448,234)
 Net capital assets	 <u>\$398,367</u>	 <u>\$11,035</u>	 <u>\$0</u>	 <u>\$409,402</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 7 Fixed Assets (Continued)

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
Business Activities:				
Assets not being depreciated:				
Land	\$3,410	\$0	\$0	\$3,410
Construction in progress	1,757,392	0	1,757,392	0
Capital assets being depreciated:				
Water lines	279,199	1,763,792	0	2,042,991
Sewer lines	1,972,183	0	0	1,972,183
Mains / meters	640,265	0	0	640,265
Sewer treatment plant	752,378	441,129	0	1,193,507
Equipment	<u>15,628</u>	<u>17,695</u>	<u>0</u>	<u>33,323</u>
Total capital assets	5,420,455	2,222,616	1,757,392	5,885,679
Less accumulated depreciation for:				
Water lines	(65,362)	(14,393)	0	(79,755)
Sewer lines	(383,185)	(29,454)	0	(412,639)
Mains / meters	(194,270)	(9,172)	0	(203,442)
Sewer treatment plant	(151,580)	(19,892)	0	(171,472)
Equipment	<u>(5,390)</u>	<u>(723)</u>	<u>0</u>	<u>(6,113)</u>
Total accumulated depreciation	<u>(799,787)</u>	<u>(73,634)</u>	<u>0</u>	<u>(873,421)</u>
Net capital assets	<u>\$4,620,668</u>	<u>\$2,148,982</u>	<u>\$1,757,392</u>	<u>\$5,012,258</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 6,082
Public safety	13,991
Public works	33,660
Recreation and cultural	<u>6,600</u>
Total governmental activities	<u>\$60,333</u>
Business-type activities:	
Sewer fund	\$49,345
Water fund	<u>24,289</u>
Total business-type activities	<u>\$73,634</u>

VILLAGE OF SOUTH ROCKWOOD

*Notes to Financial Statements
Year Ended June 30, 2005*

Note 8

Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2005:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Original Amount of Issue</u>	<u>Balance Outstanding</u>
Contract Liability for: South Huron Valley Utility Authority - 1991 SRF Bonds	2.00%	9/26/91	4/1/2011	\$ 162,374	\$ 60,709
Contract Liability for: South Huron Valley Utility Authority - 1998 Sewer System Plant Expansion Bonds	2.25%	9/29/98	10/1/2020	195,620	161,091
Contract Liability for: South Huron Valley Utility Authority - 2004 SRF Bonds	2.125%	6/24/04	4/1/2026	203,762	203,762
Contract Liability for: City of Woodhaven - 4% share of South Huron Valley Utility Authority 1991, 1998, and 2004 SRF Bonds	2.00 - 2.25%	3/22/05	4/1/2026	237,367	228,460
Contract Liability for: Michigan Municipal Bond Authority - Monroe County Water Supply System Bonds Village of South Rockwood System No. 2.	2.50%	9/26/02	4/1/2023	1,530,000	<u>1,410,000</u>
					2,064,022
Obligations under Capital Leases:					
Kubota Credit Tractor Lease, payable \$931.52 quarterly, beginning November 13, 2002, including interest at 4.49%, due August 13, 2005, secured by the tractor.	4.49%	8/13/02	8/13/2005	10,404	905

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 8 Long-Term Debt (Continued)

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Original Amount of Issue</u>	<u>Balance Outstanding</u>
Obligations under Capital Leases:					
Ford Motor Credit Police Car Lease, payable \$3,101 quarterly, beginning October 29, 2003, including interest at 4.90% due July 29, 2006, secured by the car.	4.90%	10/29/03	7/29/2006	\$34,829	\$ <u>14,950</u>
					15,855
Compensated absences payable					<u>39,291</u>
					<u>\$2,119,168</u>

Compensated absences payable represents sick and comp time pay accrued as of June 30, 2005.

The following is a summary of changes in long-term debt:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Contract Liability for:					
South Huron Valley Utility Authority -1991 SRF Bonds	\$ 70,107	\$ -	\$ 9,398	\$ 60,709	\$ 9,589
Contract Liability for:					
South Huron Valley Utility Authority - 1998 Sewer System Plant Expansion Bonds	169,360	-	8,269	161,091	8,489
Contract Liability for:					
South Huron Valley Utility Authority - 2004 SRF Bonds	-	203,762	-	203,762	-
Contract Liability for:					
City of Woodhaven 4% share of South Huron Valley Utility Authority 1991, 1998, and 2004 SRF Bonds	-	237,367	8,907	228,460	11,956

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 8 Long-Term Debt (Continued)

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due Within</u> <u>One Year</u>
Contract Liability for:					
Michigan Municipal					
Bond Authority -					
Monroe County Water					
Supply System Bonds					
VSR System No. 2	\$1,470,000	\$ -	\$ 60,000	\$1,410,000	\$ 65,000
	1,709,467	441,129	86,574	2,064,022	95,034
Obligations under Capital Leases:					
Tractor Lease	9,106	-	9,106	-	-
Tractor Lease	4,505	-	3,600	905	905
Police Car Lease	26,271	-	11,321	14,950	11,885
	39,882	-	24,027	15,855	12,791
Compensated absences	34,775	4,516	-	39,291	-
	<u>\$1,784,124</u>	<u>\$445,645</u>	<u>\$110,601</u>	<u>\$2,119,168</u>	<u>\$107,825</u>

Contract liability for South Huron Valley Utility Authority - 1991 SRF Bonds original issue of \$12,785,000 with the Village's share set at 1.27%, equaling \$162,374. The Bonds were issued September 26, 1991, by the County of Wayne:

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/1/05	\$ -	\$ 607	\$ 607
04/1/06	9,589	607	10,196
10/1/06	-	511	511
04/1/07	9,843	511	10,354
10/1/07	-	413	413
04/1/08	10,033	413	10,446
10/1/08	-	312	312
04/1/09	10,224	312	10,536
10/1/09	-	210	210
04/1/10	10,414	210	10,624
10/1/10	-	106	106
04/1/11	10,606	106	10,712
	<u>\$60,709</u>	<u>\$4,318</u>	<u>\$65,027</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements
Year Ended June 30, 2005

Note 8

Long-Term Debt (Continued)

South Huron Valley Utility Authority - 1998 Sewer System Plant Expansion Bonds, original issue of \$26,615,000 dated September 29, 1998 with the Village's share set at 0.735%, equaling \$195,620.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/1/05	\$ 8,489	\$ 1,812	\$ 10,301
04/1/06	-	1,717	1,717
10/1/06	8,673	1,717	10,390
04/1/07	-	1,619	1,619
10/1/07	8,857	1,619	10,476
04/1/08	-	1,520	1,520
10/1/08	9,077	1,520	10,597
04/1/09	-	1,417	1,417
10/1/09	9,261	1,417	10,678
04/1/10	-	1,313	1,313
10/1/10	9,482	1,313	10,795
04/1/11	-	1,207	1,207
10/1/11	9,702	1,207	10,909
04/1/12	-	1,097	1,097
10/1/12	9,923	1,097	11,020
04/1/13	-	986	986
10/1/13	10,106	986	11,092
04/1/14	-	872	872
10/1/14	10,327	872	11,199
04/1/15	-	756	756
10/1/15	10,584	756	11,340
04/1/16	-	637	637
10/1/16	10,805	637	11,442
04/1/17	-	515	515
10/1/17	11,062	515	11,577
04/1/18	-	391	391
10/1/18	11,319	391	11,710
04/1/19	-	264	264
10/1/19	11,576	264	11,840
04/1/20	-	133	133
10/1/20	<u>11,848</u>	<u>133</u>	<u>11,981</u>
	<u>\$161,091</u>	<u>\$30,700</u>	<u>\$191,791</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 8

Long-Term Debt (Continued)

South Huron Valley Utility Authority - 2004 SRF Bonds original issue of \$9,220,000 dated June 24, 2004 with the Village's share set at 2.210%, equaling \$203,762.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/01/05	\$0	\$1,542	\$1,542
04/01/06	0	1,964	1,964
10/01/06	0	2,165	2,165
04/01/07	8,288	2,165	10,453
10/01/07	0	2,077	2,077
04/01/08	8,398	2,077	10,475
10/01/08	0	1,988	1,988
04/01/09	8,619	1,988	10,607
10/01/09	0	1,896	1,896
04/01/10	8,840	1,896	10,736
10/01/10	0	1,802	1,802
04/01/11	8,950	1,802	10,752
10/01/11	0	1,707	1,707
04/01/12	9,172	1,707	10,879
10/01/12	0	1,610	1,610
04/01/13	9,393	1,610	11,003
10/01/13	0	1,510	1,510
04/01/14	9,614	1,510	11,124
10/01/14	0	1,408	1,408
04/01/15	9,834	1,408	11,242
10/01/15	0	1,303	1,303
04/01/16	10,056	1,303	11,359
10/01/16	0	1,196	1,196
04/01/17	10,166	1,196	11,362
10/01/17	0	1,088	1,088
04/01/18	10,387	1,088	11,475
10/01/18	0	978	978
04/01/19	10,608	978	11,586
10/01/19	0	865	865
04/01/20	10,939	865	11,804
10/01/20	0	749	749
04/01/21	11,160	749	11,909
10/01/21	0	630	630
04/01/22	11,382	630	12,012
10/01/22	0	510	510
04/01/23	11,602	510	12,112
10/01/23	0	386	386
04/01/24	11,823	386	12,209
10/01/24	0	261	261
04/01/25	12,155	261	12,416
10/01/25	0	132	132
04/01/26	12,376	132	12,508
	<u>\$203,762</u>	<u>\$52,028</u>	<u>\$255,790</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements
Year Ended June 30, 2005

Note 8

Long-Term Debt (Continued)

City of Woodhaven - South Huron Valley Utility Authority - 1991 SRF Bonds, 1998 Sewer System Plant Expansion Bonds, and 2004 SRF Bonds, 4% share of the City of Woodhaven's SHVUA debt share.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/01/05	\$2,869	\$2,069	\$4,938
04/01/06	9,087	2,278	11,365
10/01/06	2,931	2,302	5,233
04/01/07	14,066	2,269	16,335
10/01/07	2,992	2,125	5,117
04/01/08	14,309	2,091	16,400
10/01/08	3,066	1,945	5,011
04/01/09	14,617	1,911	16,528
10/01/09	3,127	1,763	4,890
04/01/10	14,923	1,728	16,651
10/01/10	3,200	1,575	4,775
04/01/11	15,167	1,539	16,706
10/01/11	3,274	1,384	4,658
04/01/12	5,244	1,347	6,591
10/01/12	3,348	1,291	4,639
04/01/13	5,370	1,253	6,623
10/01/13	3,421	1,196	4,617
04/01/14	5,496	1,158	6,654
10/01/14	3,495	1,100	4,595
04/01/15	5,623	1,060	6,683
10/01/15	3,581	1,000	4,581
04/01/16	5,749	960	6,709
10/01/16	3,654	899	4,553
04/01/17	5,812	858	6,670
10/01/17	3,740	796	4,536
04/01/18	5,939	754	6,693
10/01/18	3,826	691	4,517
04/01/19	6,065	648	6,713
10/01/19	3,912	584	4,496
04/01/20	6,254	540	6,794
10/01/20	3,997	473	4,470
04/01/21	6,381	428	6,809
10/01/21	0	360	360
04/01/22	6,507	360	6,867
10/01/22	0	291	291
04/01/23	6,633	291	6,924
10/01/23	0	221	221
04/01/24	6,760	221	6,981
10/01/24	0	149	149
04/01/25	6,949	149	7,098
10/01/25	0	75	75
04/01/26	7,076	75	7,151
	<u>\$228,460</u>	<u>\$44,207</u>	<u>\$272,667</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements
Year Ended June 30, 2005

Note 8

Long-Term Debt (Continued)

Michigan Municipal Bond Authority - Monroe County Water Supply System Bonds, Village of South Rockwood System #2, original issue of \$1,530,000 dated September 26, 2002.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/1/05	\$ -	\$ 17,625	\$ 17,625
04/1/06	65,000	17,625	82,625
10/1/06	-	16,812	16,812
04/1/07	65,000	16,813	81,813
10/1/07	-	16,000	16,000
04/1/08	65,000	16,000	81,000
10/1/08	-	15,187	15,187
04/1/09	70,000	15,188	85,188
10/1/09	-	14,312	14,312
04/1/10	70,000	14,313	84,313
10/1/10	-	13,437	13,437
04/1/11	70,000	13,438	83,438
10/1/11	-	12,562	12,562
04/1/12	75,000	12,563	87,563
10/1/12	-	11,625	11,625
04/1/13	75,000	11,625	86,625
10/1/13	-	10,687	10,687
04/1/14	75,000	10,688	85,688
10/1/14	-	9,750	9,750
04/1/15	80,000	9,750	89,750
10/1/15	-	8,750	8,750
04/1/16	80,000	8,750	88,750
10/1/16	-	7,750	7,750
04/1/17	80,000	7,750	87,750
10/1/17	-	6,750	6,750
04/1/18	85,000	6,750	91,750
10/1/18	-	5,688	5,688
04/1/19	85,000	5,688	90,688
10/1/19	-	4,625	4,625
04/1/20	90,000	4,625	94,625
10/1/20	-	3,500	3,500
04/1/21	90,000	3,500	93,500
10/1/21	-	2,375	2,375
04/1/22	95,000	2,375	97,375
10/1/22	-	1,187	1,187
04/1/23	<u>95,000</u>	<u>1,187</u>	<u>96,187</u>
	<u>\$1,410,000</u>	<u>\$357,250</u>	<u>\$1,767,250</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 8 Long-Term Debt (Concluded)
The annual requirements to pay principal and interest on the long-term debt outstanding at June 30, 2005, excluding compensated absences, are as follows:

<u>Fiscal Years</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$12,792	\$527	\$13,319
2007	<u>3,063</u>	<u>37</u>	3,100
	<u>\$15,855</u>	<u>\$564</u>	<u>\$16,419</u>

<u>Fiscal Years</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 95,034	\$ 47,846	\$ 142,880
2007	108,801	46,884	155,685
2008	109,589	44,335	153,924
2009	115,603	41,768	157,371
2010	116,565	39,058	155,623
2011 - 2015	535,747	155,707	691,454
2016 - 2020	576,034	90,219	666,253
2021 - 2025	387,197	22,272	409,469
2026	<u>19,452</u>	<u>414</u>	<u>19,866</u>
	<u>\$2,064,022</u>	<u>\$488,503</u>	<u>\$2,552,525</u>

Note 9 Deferred Compensation Plan
The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by the Public Employees Benefit Services Corporation (PEBSICO), as agent for the United States Conference of Mayors (USCM) of Washington, D.C. The Plan, available to all Village employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust for the exclusive benefit of employees. While the contract is held by the Village of South Rockwood, the assets of the plan are held for the exclusive benefit of plan participants and their beneficiaries. The plan assets cannot be used to satisfy claims of general creditors. Therefore, the amount held in trust is not shown on the balance sheet.

Note 10 Cablevision Franchise Fees
On October 18, 1982, the Village Council decided that all monies received from Wayne Cablevision for franchise fees would be accumulated, along with applicable interest, until it decides how the money will be spent. During the fiscal year ending June 30, 2005, the Village did spend \$7,109 of these monies. As of June 30, 2005, \$143,117 has been accumulated.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2005

Note 11 Property Taxes

Under its charter, the Village may levy up to 20 mills for general operating purposes. Taxes are levied on July 1 each year and are collected by the Village from July 1 to September 14. The property tax revenue is recognized in the period that the tax was levied. The taxable value for both real and personal property as of December 31, 2003 amounted to \$34,208,197 which represents a percentage of the fair market value of the assessed property.

The 2004 tax roll consisted of 14.5 mills levied for the General Fund. The Village budgeted three of the 14.5 mills as a contribution to the Water Supply System Fund amounting to \$102,551.

Note 12 Sharing of Administrative and General Expenses

As a method of prorating certain administrative and general expenses to the various funds of the Village, the Village Council adopted, as part of the annual budget, a schedule of payments to be made to the General Fund by the various funds to cover their share of the designated expenses. The following schedule of payments was included in the 2004-05 budget:

Major Street Fund	\$ 7,000
Local Street Fund	2,800
Sewage System Fund	24,000
Water Supply fund	18,000
Equipment Fund	<u>6,000</u>
Total	<u>\$57,800</u>

Note 13 Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The Village has purchased commercial insurance for property loss, torts, errors, omissions and employee injuries.

Note 14 Charges for Services

Charges for users and beneficiaries of the Water Supply System and Sewer System Enterprise Funds consist of the following:

Water Supply System:

Water sales - a water charge is billed at rates established by the Village based on water consumption.

Debt service charge - a debt service charge of \$5.00 per quarter is charged to each user to a maximum of \$300. Effective December 31, 2001, the \$300 charge is paid prior to connection to the water system.

Sewer System:

Sewage treatment charge - a sewer treatment charge is billed at rates established by the Village based on water consumption.

Sewer maintenance charge - a sewer maintenance charge of \$4.00 per month is charged to each customer of the system.

Debt service charge - a debt service charge of \$2.36 per month per unit is charged to each user of the system.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2005*

Note 15 Drug Forfeiture Funds

During the year ending June 30, 2005, the Village received \$0 of drug forfeiture funds, earned \$50 in interest on drug forfeiture funds and expended none of these funds for drug enforcement and education. As of June 30, 2005, the Village has \$4,149 on hand for future related expenditures.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF SOUTH ROCKWOOD

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$498,165	\$497,915	\$500,140	\$2,225
Licenses and permits	35,550	35,550	47,543	11,993
Federal grant:				
FEMA	0	0	1,693	1,693
State grants:				
State shared revenue	119,000	113,800	112,481	(1,319)
Right of way	0	0	5,163	5,163
MDEQ park grant	0	15,000	15,941	941
Liquor license fees	1,200	1,200	1,235	35
Ash tree removal	0	0	546	546
	120,200	130,000	135,366	5,366
Local grant:				
County of Monroe grant	0	0	22,383	22,383
Charges for services:				
Weed cutting	250	250	789	539
Refuse collection	38,000	23,000	45,731	22,731
Other	550	175	181	6
	38,800	23,425	46,701	23,276
Fines and forfeits	15,000	15,000	14,255	(745)
Interest income	1,000	1,000	3,286	2,286
Other revenue:				
Summer recreation program	30,620	30,620	24,200	(6,420)
Administration expenses	56,600	56,600	57,800	1,200
Abandoned property recovery	0	74,925	74,925	0
Other revenue	835	3,965	7,168	3,203
	88,055	166,110	164,093	(2,017)
Total Revenues	796,770	869,000	935,460	66,460
Expenditures				
Legislative:				
Council	21,866	21,866	7,369	14,497
General government:				
President	832	832	605	227
Audit fees	10,500	13,300	13,300	0
Legal fees	11,708	11,708	11,452	256
Clerk	70,619	72,319	56,733	15,586
Treasurer	11,797	19,112	17,411	1,701
Election	1,455	1,455	0	1,455
Village hall and grounds	46,701	54,201	51,723	2,478
Promotional	50	50	0	50
	153,662	172,977	151,224	21,753

VILLAGE OF SOUTH ROCKWOOD

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Concluded)				
Public safety:				
Police department	\$187,559	\$198,059	\$192,877	\$5,182
Building inspection	15,150	17,050	15,571	1,479
Electrical inspection	9,100	9,420	2,294	7,126
Plumbing inspection	10,100	10,100	60	10,040
Zoning board	1,265	1,265	327	938
Ordinance enforcer	2,438	2,438	2,062	376
Planning commission	4,200	4,550	378	4,172
	<u>229,812</u>	<u>242,882</u>	<u>213,569</u>	<u>29,313</u>
Public works:				
Department of Public Works	64,338	64,993	44,443	20,550
Street lighting	16,000	17,000	16,892	108
Sanitation	46,203	47,293	46,527	766
Engineer	9,000	9,000	1,133	7,867
Recycling	22,264	22,264	19,361	2,903
	<u>157,805</u>	<u>160,550</u>	<u>128,356</u>	<u>32,194</u>
Recreation and cultural:				
Playground	33,210	62,285	62,180	105
Youth program	450	450	318	132
Summer recreation program	50,252	50,252	27,623	22,629
	<u>83,912</u>	<u>112,987</u>	<u>90,121</u>	<u>22,866</u>
Other:				
Fringe benefits	0	325	929	(604)
Unemployment compensation	0	7,900	6,158	1,742
Insurance and bonds	16,500	16,500	16,063	437
Contingencies	37,732	37,532	0	37,532
	<u>54,232</u>	<u>62,257</u>	<u>23,150</u>	<u>39,107</u>
Total Expenditures	<u>701,289</u>	<u>773,519</u>	<u>613,789</u>	<u>159,730</u>
Excess (Deficiency) of Revenues Over Expenditures	95,481	95,481	321,671	226,190
Other Financing Sources (Uses)				
Operating transfer out	<u>(107,551)</u>	<u>(107,551)</u>	<u>(107,551)</u>	<u>0</u>
Net Change in Fund Balances	<u>(12,070)</u>	<u>(12,070)</u>	<u>214,120</u>	<u>226,190</u>
Fund Balances - Beginning of year	<u>12,070</u>	<u>12,070</u>	<u>85,596</u>	<u>73,526</u>
Fund Balances - End of year	<u>\$0</u>	<u>\$0</u>	<u>\$299,716</u>	<u>\$299,716</u>

VILLAGE OF SOUTH ROCKWOOD

Local Street Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State grants:				
Gas and weight tax	\$27,000	\$30,500	\$30,808	\$308
Local program funds	1,000	1,000	1,351	351
	28,000	31,500	32,159	659
Interest income	1,300	1,300	1,934	634
Total Revenues	29,300	32,800	34,093	1,293
Expenditures				
Public works:				
Construction	0	25,600	0	25,600
Routine maintenance	70,000	92,000	117,264	(25,264)
Traffic services	3,000	3,000	2,164	836
Winter maintenance	3,000	5,500	7,162	(1,662)
Administrative and engineering	3,800	3,800	3,050	750
Contingencies	93,877	47,277	0	47,277
Total Expenditures	173,677	177,177	129,640	47,537
Excess (Deficiency) of Revenues Over Expenditures	(144,377)	(144,377)	(95,547)	48,830
Other Financing Sources (Uses)				
Operating transfer in	15,000	15,000	15,000	0
Net Change in Fund Balances	(129,377)	(129,377)	(80,547)	48,830
Fund Balances - Beginning of year	129,377	129,377	215,792	86,415
Fund Balances - End of year	<u>\$0</u>	<u>\$0</u>	<u>\$135,245</u>	<u>\$135,245</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF SOUTH ROCKWOOD

Nonmajor Governmental Funds Combining Balance Sheet June 30, 2005

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Major Street	Cemetery	Capital Projects	
Assets				
Cash and investments	\$187,295	\$205,707	\$25,066	\$418,068
Total Assets	<u>\$187,295</u>	<u>\$205,707</u>	<u>\$25,066</u>	<u>\$418,068</u>
Liabilities				
Accounts payable	\$35	\$0	\$0	\$35
Due to other funds	4,815	3,194	0	8,009
Total Liabilities	4,850	3,194	0	8,044
Fund balances				
Unreserved	182,445	202,513	25,066	410,024
Total Liabilities and Fund balances	<u>\$187,295</u>	<u>\$205,707</u>	<u>\$25,066</u>	<u>\$418,068</u>

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Nonmajor Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Major Street	Cemetery	Capital Projects	
Revenues				
State grants	\$75,346	\$0	\$0	\$75,346
Charges for services	0	25,800	0	25,800
Interest/investment income	2,339	5,872	321	8,532
Other revenue	0	150	0	150
Total Revenues	77,685	31,822	321	109,828
Expenditures				
Current Operating:				
General government	0	27,730	0	27,730
Public works	42,762	0	0	42,762
Total Expenditures	42,762	27,730	0	70,492
Excess (Deficiency) of Revenues Over Expenditures	34,923	4,092	321	39,336
Other Financing Sources (Uses)				
Operating transfers out	(10,000)	0	0	(10,000)
Net Change in Fund Balances	24,923	4,092	321	29,336
Fund Balances - Beginning of year	157,522	198,421	24,745	380,688
Fund Balances - End of year	<u>\$182,445</u>	<u>\$202,513</u>	<u>\$25,066</u>	<u>\$410,024</u>

See Notes to Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Major Street Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State grants:				
Gas and weight tax	\$68,000	\$68,000	\$72,865	\$4,865
Local program funds	2,400	2,400	2,481	81
	70,400	70,400	75,346	4,946
Interest income	1,000	1,000	2,339	1,339
 Total Revenues	 71,400	 71,400	 77,685	 6,285
Expenditures				
Public works:				
Construction	5,000	5,000	0	5,000
Routine maintenance	20,000	20,000	21,208	(1,208)
Traffic services	5,000	5,000	3,453	1,547
Winter maintenance	10,000	10,000	10,651	(651)
Administrative and engineering	14,000	14,000	7,450	6,550
Contingencies	160,799	160,799	0	160,799
 Total Expenditures	 214,799	 214,799	 42,762	 172,037
 Excess (Deficiency) of Revenues Over Expenditures	 (143,399)	 (143,399)	 34,923	 178,322
Other Financing Sources (Uses)				
Operating transfer out	(10,000)	(10,000)	(10,000)	0
 Net Change in Fund Balances	 (153,399)	 (153,399)	 24,923	 178,322
 Fund Balances - Beginning of year	 153,399	 153,399	 157,522	 4,123
 Fund Balances - End of year	 \$0	 \$0	 \$182,445	 \$182,445

VILLAGE OF SOUTH ROCKWOOD

Riverside Cemetery Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Charges for services:				
Perpetual care fees	\$1,000	\$900	\$900	\$0
Grave opening / closing fees	9,000	9,000	9,400	400
Sale of lots	4,800	6,383	13,600	7,217
Monument footing fees	2,000	1,900	1,900	0
	16,800	18,183	25,800	7,617
Interest / investment income	700	700	5,872	5,172
Other revenue	0	0	150	150
Total Revenues	17,500	18,883	31,822	12,939
Expenditures				
Cemetery:				
Sexton	5,400	5,400	5,391	9
Record keeping / administration	2,000	2,233	156	2,077
Grave opening / closing	11,700	11,700	6,858	4,842
Ground upkeep / maintenance	16,000	17,150	15,325	1,825
Contingencies	172,389	172,389	0	172,389
Total Expenditures	207,489	208,872	27,730	181,142
Net Change in Fund Balances	(189,989)	(189,989)	4,092	194,081
Fund Balances - Beginning of year	189,989	189,989	198,421	8,432
Fund Balances - End of year	<u>\$0</u>	<u>\$0</u>	<u>\$202,513</u>	<u>\$202,513</u>

VILLAGE OF SOUTH ROCKWOOD

Capital Projects Fund *Statement of Revenues, Expenditures, and Changes in Fund Balance* *Budget to Actual* *Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Interest income	\$150	\$150	\$321	\$171
Total Revenues	150	150	321	171
Expenditures				
Other	24,888	24,888	0	24,888
Total Expenditures	24,888	24,888	0	24,888
Net Change in Fund Balances	(24,738)	(24,738)	321	25,059
Fund Balances - Beginning of year	24,738	24,738	24,745	7
Fund Balances - End of year	\$0	\$0	\$25,066	\$25,066



**COOLEY HEHL
WOHLGAMUTH & CARLTON**
P. L. L. C. Certified Public Accountants

James R. Cooley, CPA
David K. Hehl, CPA
Robert W. Wohlgamuth, CPA
Peter H. Carlton, CPA
Matthew D. Hehl, CPA
Deborah A. Sabo, CPA

One South Monroe Street • Monroe, Michigan 48161-2281
Telephone: (734) 241-7200 • Fax: (734) 241-2637
www.chwccpa.com

Members:
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants
Division for CPA Firms American Institute of
Certified Public Accountants

Village Council
Village of South Rockwood
5676 Carleton-Rockwood Road
South Rockwood, Michigan 48179

Report of Comments and Recommendations

Our audit of the financial statements of the Village of South Rockwood for the fiscal year ended June 30, 2005 was made in accordance with auditing standards generally accepted in the United States of America. These standards require, in addition to obtaining competent evidential matter through inspection, observation, inquiry, and confirmation, that we determine that existing internal controls, accounting procedures, and accounting records are adequate to allow us to express an opinion on the financial statements of the Village. During the course of our audit, we noted certain practices and procedures which we believe could be changed to improve existing internal controls, accounting procedures, accounting records, and other matters.

Our comments on these items are set forth herein for your review and have been discussed with appropriate personnel. These comments are based primarily upon procedures employed during our audit and therefore do not encompass all matters that might result from special studies directed toward such matters.

Investments

As required by the new GASB No. 40, the Village is now required to disclose exposure to certain risks pertaining to the Village's deposits and investments. It is our recommendation that the Village review and update their current deposit and investment policy, and that the council review the investment holdings of the Cemetery Fund investment account due to recent "downgrading" of certain corporate bonds held by the Village.

Check Register

We recommend the Village print a monthly check register with each month's disbursements. The invoices and check copies could then be filed with the monthly check register.

Water and Sewer Accounting Records

Due to the implementation of the new accounting software it is important to note a few changes in your accounting system. The new software now links your Water and Sewer billings and collections with your Water and Sewer fund's general ledgers. Unlike your manual accounting system, your Water and Sewer Funds are now using accrual accounting. As water and sewer usage is billed it posts to the appropriate revenue accounts and accounts receivable, and as payments are posted it reduces your accounts receivable. As discussed during audit field work, monthly reports should be maintained for usage, accounts receivable and billings.

Village Council
Village of South Rockwood

-2-

We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all officers and employees of the Village. We would be pleased to discuss any of these recommendations with you and to provide any assistance that you may require in their implementation.

Very truly yours,

A handwritten signature in black ink, reading "Cody Hall Wohlgenuth & Carlton". The signature is written in a cursive, flowing style.

November 21, 2005